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Message Text

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SUBJECT: EDRC REVIEW OF IRELAND

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1. SUMMARY: DRAFT SURVEY (REFDOC) SEES WEAKER ECONOMY IN 1974 COUPLED WITH HIGHER RATE INFLATION. IT RECOMMENDS REDUCTION TAXES TO STIMULATE WEAKER PRIVATE CONSUMPTION AND CONTINUED EXPANSION PUBLIC WORKS PROGRAM. DRAFT SEES NO PROBLEM WITH LARGER CURRENT ACCOUNT DEFICIT, WHICH LARGELY OIL RELATED. END SUMMARY.

2. SECRETARIAT DRAFT REVIEW IRISH ECONOMY (REFDOC) AIR POUCHED WASHINGTON AND DIRECT MAILED EMBASSY DUBLIN (FURNESS) MARCH 1. REVIEW NOTES 1973 WAS PARTICULARLY SUCCESSFUL YEAR FOR ECONOMIC POLICY, WITH RAPID GROWTH OUTPUT MAKING UP FOR SLOW GROWTH TWO PREVIOUS YEARS. TWO DARK SPOTS WERE FURTHER ACCELERATION OF INFLATION, WITH CONSUMER PRICES RISING 12.5 PERCENT THROUGH 1973, AND DETERIORATION OF BALANCE PAYMENTS.

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3. SECRETARIAT CONSIDERS INFLATION IS PRIME PROBLEM

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IRISH ECONOMIC POLICY. MAJOR SOURCE UNCERTAINTY IS
FUTURE COURSE EMPLOYEE INCOMES. DRAFT RECOMMENDS
GOVERNMENT TAKE MORE ACTIVE ROLE IN WAGE DETERMINATION,
AND NOTES IT UNLIKELY THAT OPEN ECONOMY LIKE IRELAND
CAN COMBAT INFLATION SUCCESSFULLY IF PRICE CONTROLS
AND CENTRALIZED WAGE DETERMINATION ARE NOT SUPPLEMENTED
BY DISCUSSIONS OF ACCOMPANYING FISCAL AND DEMAND
MANAGEMENT POLICIES IN NEW NATIONAL ECONOMIC AND
SOCIAL COUNCIL. CONSIDERABLE PART OF REVIEW IS DEVOTED
TO INFLATION AND ITS RELATION TO PUBLIC FINANCE. DRAFT
NOTES THAT PUBLIC SECTOR BORROWING WILL REMAIN LARGE
COMPARED WITH OTHER COUNTRIES, AND FINANCING CONSIDERA-
TIONS COULD BE A CONSTRAINT ON PUBLIC SECTORS' DESIRED
GROWTH UNLESS MEANS ARE FOUND TO INCREASE THE SHARE
OF SAVINGS WHICH IT NOW RECEIVES. BROADENING OF TAX
BASE IS DESIRABLE FROM BOTH SHORT AND LONG TERM
ECONOMIC POLICY POINTS OF VIEW.

4. SECRETARIAT ESTIMATES OIL PRICE HIKE WILL HAVE
DIRECT AND INDIRECT ADVERSE IMPACT ON TRADE ACCOUNT
OF ABOUT 130 MILLION POUNDS, OR ABOUT 4, PERCENT GDP.
THIS CHANGE IS LARGEST AMONG OECD COUNTRIES IN TERMS
GDP AND IS ROUGH INDICATION OF DEFLATIONARY IMPACT
OIL PRICE INCREASE. DIRECT AND INDIRECT EFFECTS ON
CONSUMER PRICES MIGHT ADD ABOUT 4 PERCENTAGE POINTS.

5. ON BASIS UNCHANGED POLICIES, GDP EXPECTED SLOW
DOWN TO RANGE 2.5 TO 3 PERCENT IN 1974, WITH SOME
FALL EMPLOYMENT. CONSUMER PRICES COULD RISE BY UP
TO 15 PERCENT. MAIN CONSTRAINT ON GROWTH WOULD BE
DEFICIENT DOMESTIC DEMAND, WITH PRIVATE CONSUMPTION
PARTICULARLY WEAK RELATED MAINLY IMPORTED INFLATION.
DRAFT REVIEW THEREFORE SUGGESTS IRISH POLICY SHIFT
TO EXPANSIONARY STANCE BY STIMULATING PRIVATE CON-
SUMPTION THROUGH TAX REDUCTIONS AND BY CONTINUED
EXPANSION PUBLIC WORKS PROGRAMS. EXPECTED INCREASE
IN CURRENT ACCOUNT DEFICIT SHOULD NOT BE EXAGGERATED,
ACCORDING SECRETARIAT, BECAUSE IT IS LARGELY RELATED
OIL PRICE INCREASES, EFFECTS OF WHICH CAN ONLY BE
OFFSET OVER NUMBER YEARS.
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